Perspectives from FSF Scholars
February 4, 2025
Vol. 20, No. 8

Low Corporate Tax Rates Attract Global Capital, Drive Economic Growth

by

Andrew Long *

As a candidate, now-President Donald J. Trump "said repeatedly that he's interested in lowering the corporate levy further [in order to] grow the economy, raise revenue and cut the deficit." Reducing the federal corporate tax rate even further than the 14-point reduction enacted in 2017 – or eliminating it altogether – would render the U.S. a more attractive global destination for capital investment, expand the economy, and create jobs. A further reduction should be a key element of a pro-growth agenda for America.

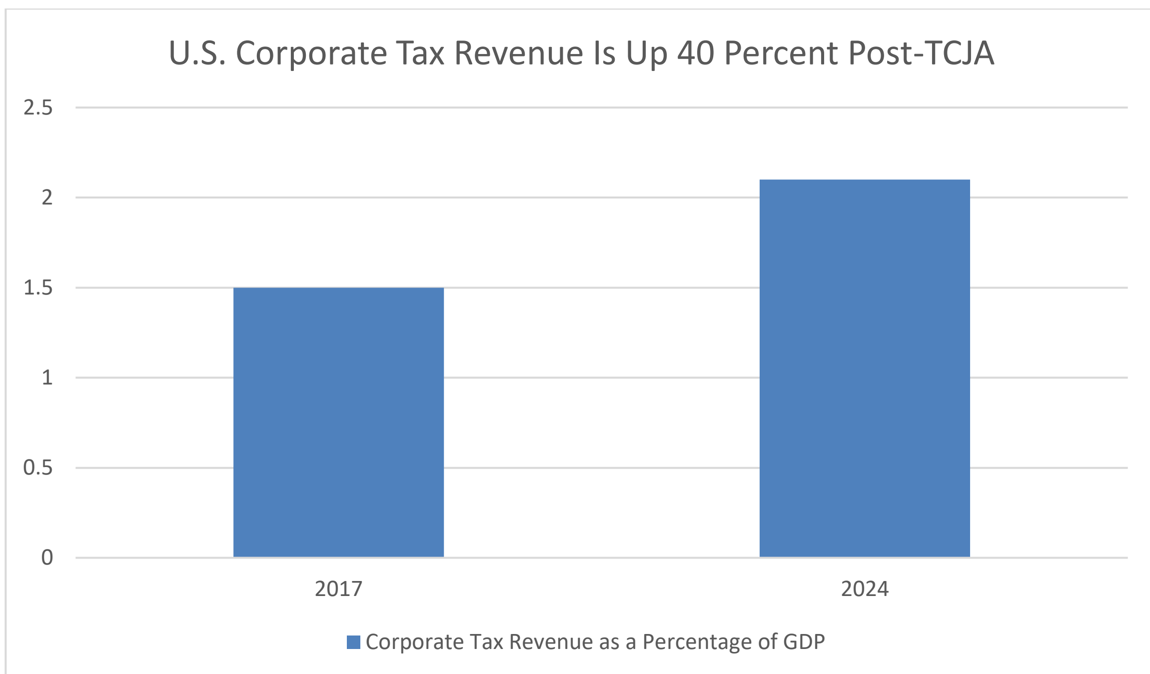
Prior to the passage of the Tax Cut and Jobs Act of 2017 (TCJA), the U.S. had the third highest federal corporate tax rate out of 188 countries: 35 percent. The TCJA permanently lowered the federal rate to 21 percent. Other provisions of the TCJA are set to expire at the end of this year, however, providing Congress with an ideal opportunity to encourage heightened investment by again reducing the corporate tax rate. Perhaps to 15 percent, the number that then-President Trump sought in 2017 and referenced during his campaign, or even to zero.

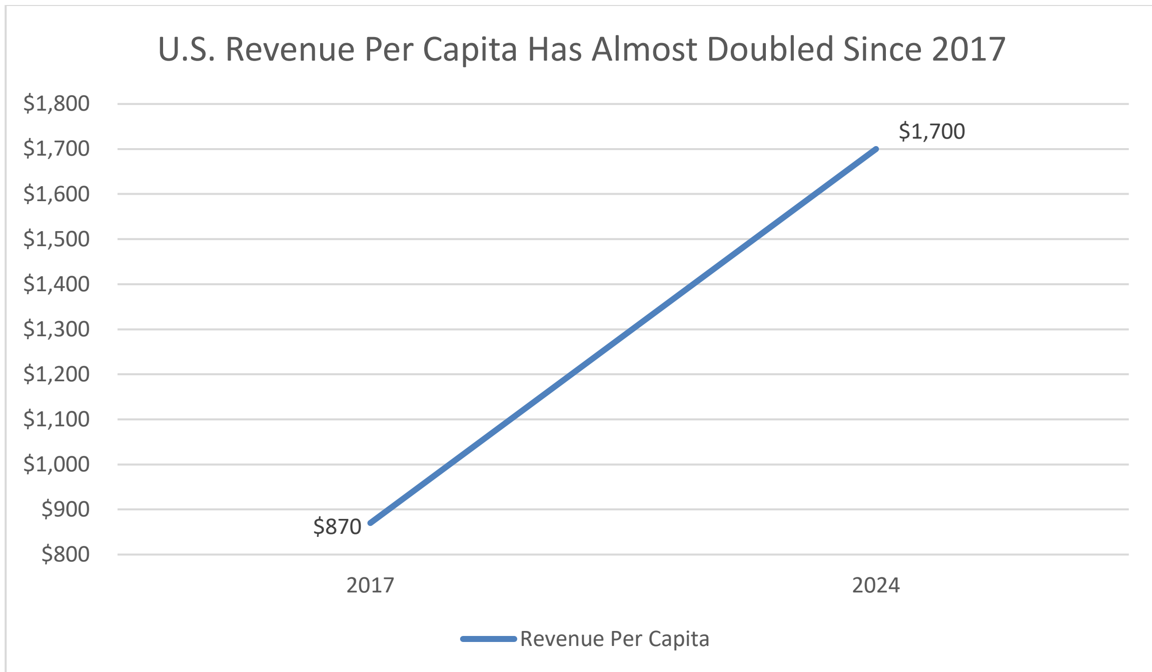
As the Irish experience shows, a lower corporate tax rate – especially vis-à-vis other industrialized nations – can expand the economy overall to an extent that more than offsets the impact of that reduced rate. In a post last month to the *Cato at Liberty* blog, Adam N. Michel and Joshua Loucks wrote that:

The Free State Foundation
P.O. Box 60680, Potomac, MD 20859
info@freestatefoundation.org
www.freestatefoundation.org

> Lower corporate income tax rates encourage investment, increase productivity, expand job opportunities, and attract internationally mobile corporate profits. In many cases, cutting the corporate tax rate does not reduce revenue; it may increase it. When Ireland cut its corporate tax, revenue increased. Its corporate tax rate went from 40 percent in 1994 to 12.5 percent by 2003. Since 1993, Irish corporate tax revenue as a share of the economy has increased by 75 percent (2.1 percentage points).

Michel and Loucks note consistent results in the U.S. since the TCJA was enacted in 2017: (1) a 40-percent increase in corporate tax revenue as a share of Gross Domestic Product (GDP), and (2) a 95-percent jump in revenue per capita, from $870 to $1,700. The following charts illustrate these impressive economic consequences:

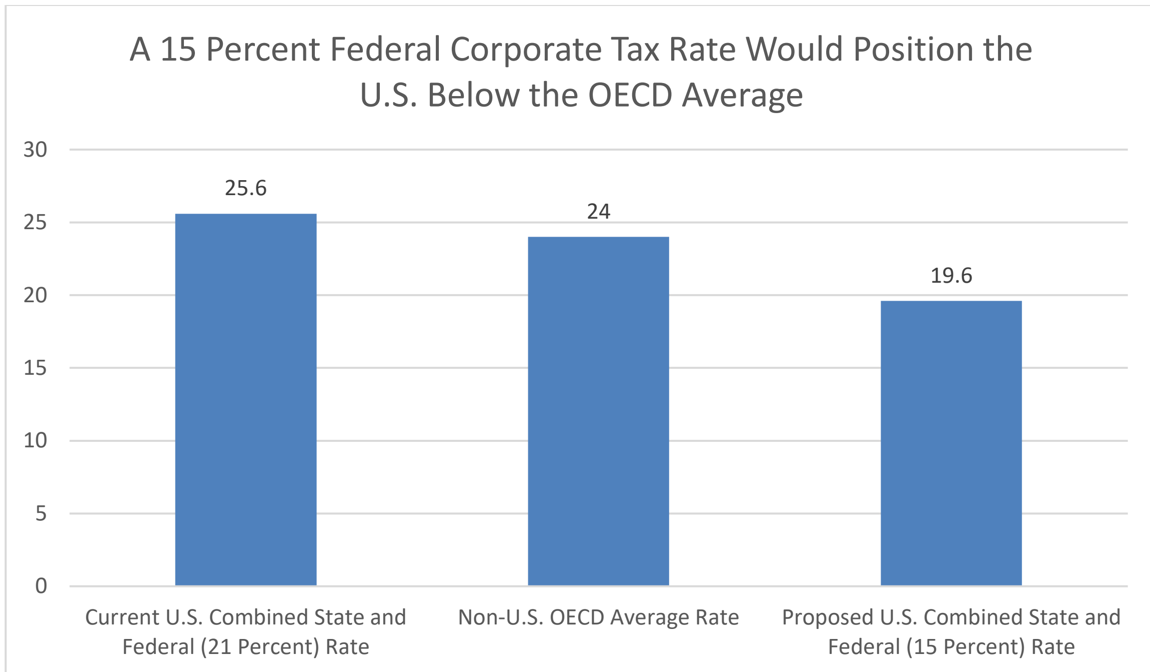




The TCJA's reduction of the federal corporate tax rate from 35 to 21 percent rendered the U.S. a more competitive destination for global investment. But that rate still remains higher than the Organization for Economic Co-operation and Development (OECD) average when you factor in state-level corporate taxes.

In "State Corporate Income Tax Rates and Brackets, 2025," a January 2025 article for the *Tax Foundation*, Abir Mandal reported that 44 states impose a corporate tax that "range from a 2.25 percent flat rate in North Carolina to a 11.5 percent top marginal rate in New Jersey." The average rate across those 44 states is 6.5 percent. According to the Tax Policy Center, the average combined corporate tax rate (state and federal) today is 25.8 percent, down from 38.9 percent prior to the TCJA's enactment. The Cato Institute's Michel and Loucks reached a similar total: 25.6 percent.

In comparison, the average combined corporate tax rate of the 37 non-U.S. OECD countries, according to Michel and Loucks, is 24 percent. As illustrated below, should Congress reduce the federal rate to 15 percent, the combined average rate (state and federal) of 19.6 percent would fall below the OECD average, with only four countries –Poland (19.0 percent), Lithuania (15.0 percent), Ireland (12.5 percent), and Hungary (9.0 percent) – imposing a lower rate:



When Congress was considering the TCJA in 2017, the House Committee on Ways and Means issued a Report declaring its belief that:

> Lowering the corporate tax rate is necessary to ensure domestic corporations remain globally competitive with their counterparts domiciled in the United States' largest international competitors…. A low competitive corporate tax rate also contributes to making the United States an attractive location for foreign corporations to invest. In addition, a lower corporate tax rate means corporations will have more resources to invest in growing their businesses and creating jobs.

Even after the TCJA's substantial reduction of the federal corporate tax rate, the average combined state and federal corporate tax rate remains above the OECD average. Therefore, consistent with a pro-growth agenda that will benefit all Americans, Congress should leverage the opportunity presented by any upcoming tax-related legislation to complete the task and position the U.S. as a top global destination for capital investment via a rate that is below the OECD average.

* Andrew Long is a Senior Fellow of the Free State Foundation, an independent**,** nonpartisan free market-oriented think tank located in Rockville, Maryland. The views expressed in this *Perspectives* do not necessarily reflect the views of others on the staff of the Free State Foundation or those affiliated with it.